



Overview of 2005 Income Tax Law Changes

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IRS Tax Forms & Publications

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New Definition of Qualifying Child (Filing Status, Exemptions, and Credits)

Must meet these tests:

- ☐ Relationship (child, sibling, or descendant of either -- including adopted child or foster child).
- ☐ Residency (more than half of the year).
- ☐ Under age 19; under age 24 if student; any age if permanently and totally disabled.
- ☐ Child did not provide more than half of own support (except for EIC).
- ☐ Tie-breaker rules apply if more than one person claims the same qualifying child.

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Dependency Exemption

A dependent is a qualifying child (or a qualifying relative) who:

- ☐ Is a U.S. citizen, national, or resident **or** a resident of Canada or Mexico (except for an adopted child residing for the entire year in the household of the taxpayer who is a U.S. citizen or national), and
- ☐ Does not file a joint return (unless no tax liability if both spouses filed separately).

Taxpayer cannot be someone else's dependent.
Special rules apply for divorced parents and under a multiple support agreement.

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Head of Household Filing Status

To claim head of household status, taxpayer must be unmarried or legally separated and maintain either:

- ☐ A home in which taxpayer resides for more than half the year with a:
 - ✓ **Qualifying child** (but not if the special rule for divorced parents applies OR the child is married and is not a dependent because of the joint return or citizenship test) **or**
 - ✓ **Dependent** (unless a dependent only because he or she resided entire year with taxpayer or was claimed under a multiple support agreement).
- ☐ The main home of the taxpayer's parent, who can be claimed as a dependent.

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Child Tax Credit

- ☐ Child must be a qualifying child under age 17.
- ☐ Child must be a U.S. citizen, national, or resident (except for an adopted child residing for the entire year in the household of the taxpayer who is a U.S. citizen or national).
- ☐ If the child is not the taxpayer's dependent, new **Form 8901** must be filed.





Child and Dependent Care Credit

A qualifying person is your:

- ☐ Qualifying child under age 13 who is your dependent, or
- ☐ Dependent (or spouse) physically or mentally incapable of caring for himself or herself who lived with you for more than half of the year.

If the special dependency test for divorced parents applies, the child is treated as a qualifying person only for the custodial parent. The taxpayer no longer must pay over half the cost of keeping up a home for the qualifying person.

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Nonqualified Deferred Compensation

A nonqualified deferred compensation plan generally must meet the following requirements:

- ☐ Distributions must be restricted to specific events under IRC section 409A(a)(2).
- ☐ Acceleration of plan distributions generally are not permitted.
- ☐ Participant generally must elect deferral of compensation by the close of the tax year before the services are performed.

If the plan fails to meet these requirements, the participant must include in gross income all amounts deferred after 2004 for the current year and all prior years (to the extent not subject to a substantial risk of forfeiture and not previously included in gross income). In addition, the participant must pay interest and an additional 20% tax on the amount so included.

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IRA Deduction

IRA deduction rules changed:

- ☐ Maximum deductible contribution increased to **\$4,000** (**\$4,500** for taxpayers **age 50 or older** at the end of the year).
- ☐ Modified AGI phase-out range increased to **\$50,000-\$60,000** (single, head of household, or married filing separately and lived apart from spouse) and **\$70,000-\$80,000** (married filing jointly or qualifying widow(er)).



Roth IRAs

Solely for the purpose of figuring the \$100,000 modified AGI limit on eligibility to make qualified rollover distributions from an IRA to a Roth IRA, minimum required distributions from IRAs and other qualified plans received in tax years beginning after 2004 are excluded from modified AGI.





Higher Limits for Employee Contributions to 401(k), 403(b), 457, and SIMPLE Plans

- ☐ Maximum increases to **\$14,000** (**\$10,000** for SIMPLE plans).
- ☐ Workers age 50 and older may contribute **\$4,000** more (**\$2,000** more for SIMPLE plans).
- ☐ More generous limits for participants in 457 plans who are within 3 years of retirement.

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Charitable Contributions of Cars, Boats, and Aircraft

For contributions after 2004 valued at more than \$500:

- ☐ Must attach acknowledgement (**Form 1098-C**) to tax return.
- ☐ Deduction limited to gross proceeds from sale — if sold by donee (to other than a needy individual for substantially less than FMV) without significant intervening use or material improvement.





Domestic Production Activities Deduction

New deduction for up to 3% of qualified production activities income from the following activities.

- ☐ Construction performed in the US,
- ☐ Engineering or architectural services performed in the US for US construction projects, or
- ☐ Any lease, license, sale, exchange, or disposition of :
 - ✓ Tangible personal property, computer software, and sound recordings manufactured, produced, grown, or extracted by the taxpayer within the US,
 - ✓ Any qualified film produced by the taxpayer , or
 - ✓ Electricity, natural gas, or potable water produced by the taxpayer in the US.

Use **Form 8903** to figure the deduction.

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Special Depreciation Allowance Expired

No special allowance for property placed in service after 2004, **except** for:

- ☐ Pre-2005 basis of certain property with a production period of more than 2 years (1 year if cost exceeds \$1 million).
- ☐ Certain noncommercial aircraft.
- ☐ New York Liberty Zone property.



Qualified Small Business Stock

Gain on the sale or exchange of qualified small business stock acquired after December 21, 2000, in a qualified business entity (within an empowerment zone) and held for more than 5 years is subject to a 60% exclusion.





Energy Tax Deductions

❑ **Deduction for qualified U.S. refineries.** New election to expense 50% of cost (for new property placed in service after August 8, 2005).

❑ **Deduction for energy efficient commercial buildings.** New deduction for depreciable property placed in service after 2005 and installed as part of interior lighting systems; heating, cooling, ventilation, and hot water systems; or the building envelope. Must be certified as being part of a plan to reduce annual energy and power costs for those systems by 50% or more. Maximum deduction is \$1.80 multiplied by building square footage.

❑ **Small refiner exclusion to percentage depletion for oil and gas wells.** Exclusion applies only if average daily refinery runs exceed 75,000 barrels (for tax years ending after August 8, 2005).

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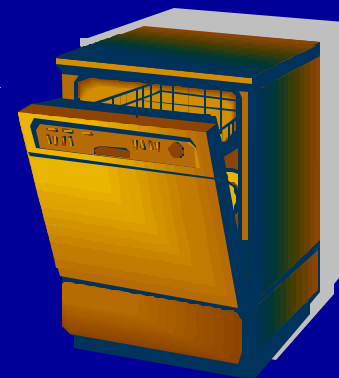
Energy-Related Changes to Existing Business Credits

- ❑ **Nonconventional source fuel credit.** Extended to facilities placed in service before 1993 or after June 30, 1998, producing coke or coke gas sold after 2005; credit applies for a four-year period. For tax years ending after 2005, credit is a general business credit.
- ❑ **Research credit.** Expanded to include 20% of expenditures on qualified energy research undertaken by an energy research consortium. The 65% limit on contract research expenses is increased to 100% if paid for qualified energy research to an eligible small business, university, or federal laboratory. Applies to amounts paid or incurred after August 8, 2005.

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New Energy Business Credits

- ☐ **Qualifying advanced coal project credit** (Form 3468) (for periods after August 8, 2005)
- ☐ **Qualifying gasification project credit** (Form 3468) (for periods after August 8, 2005)
- ☐ **Credit for business installation of qualified fuel cells and stationary microturbine power plants** (Form 3468) (for periods after 2005)
- ☐ **New energy efficient home credit** (Form 8908) (for homes acquired after 2005)
- ☐ **Energy efficient appliance credit** (Form 8909) (for appliances produced after 2005)
- ☐ **Small agri-biodiesel producer credit** (Form 8864) (for tax years ending after August 8, 2005)
- ☐ **Renewable diesel credit** (Form 8864) (for fuel sold or used after 2005)



Other New Energy Tax Credits

☐ **Alternative motor vehicle credit (Form 8910).** Includes fuel cell, advanced lean-burn, hybrid, and alternative fuel vehicles placed in service after 2005 (general business credit to extent of business portion and remainder is a personal credit). *Note: Clean-fuel vehicle deduction sunsets December 31, 2005.*

☐ **Alternative fuel vehicle refueling property credit (Form 8911).** 30% of cost of property placed in service after 2005. Maximum credit is \$1,000 (\$30,000 for depreciable property) (general business credit to extent of business portion and remainder is a personal credit). *Note: Clean-fuel vehicle refueling property deduction sunsets December 31, 2005.*

☐ **Clean renewable energy bond credit (Form 8912).** For bonds issued after 2005.



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Other New Business Credits

☐ **Qualified railroad track maintenance credit (Form 8900).** Generally, credit equals 50% of expenditures by eligible taxpayers for maintaining railroad track.

☐ **Distilled spirits credit (Form 8906).** Credit may be claimed by wholesalers, distillers, and importers for the cost of financing the federal excise tax on bottled distilled spirits for tax years beginning after September 30, 2005.

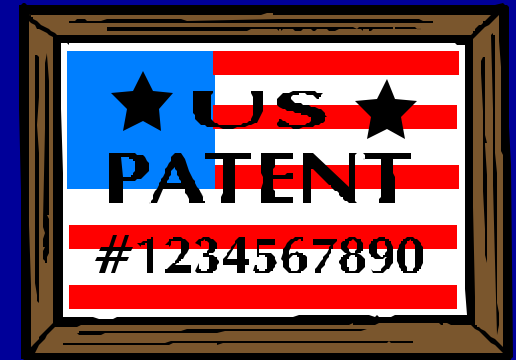
☐ **Marginal wells oil and gas production credit.** Credit up to \$3 per barrel of qualified crude oil production and 50 cents per 1,000 cubic feet of qualified natural gas production. No credit for 2005 due to reduction in credit based on price of crude oil and natural gas.



Recapture of Section 197

Amortization

If multiple **amortizable section 197 intangibles** (such as patents, copyrights, governmental licenses and permits, covenants not to compete, franchises, trademarks, and trade names) are sold (or otherwise disposed of) **after August 8, 2005**, in a single transaction or series of related transactions, ordinary income recapture is figured as if **all such intangibles were a single asset**.



New 6-Month Automatic Extension of Time to File

Individual income tax return filers filing Form 4868 will now receive an automatic 6-month extension of time to file. Form 2688 will be eliminated.

IRS Nationwide
2005
TaxFORUM

Form **4868**
Department of the Treasury
Internal Revenue Service (99)

Application for Automatic Extension of Time
To File U.S. Individual Income Tax Return

OMB No. 1545-0188

2005

What's New

- You can now use Form 4868 to obtain an automatic 6-month extension (generally 4 months if you are "out of the country"). You no longer need to file Form 2688 for additional extension of time. See *General Instructions* on page 2.
- If you are "out of the country" and are a U.S. citizen or resident, you must check the box on line 8. See *When To File* Form 4868 on page 2 and the instructions for line 8 on page 3.



It's Convenient,
Safe, and Secure

IRS e-file is the IRS's electronic filing program. You can get an automatic extension of time to file your tax return by filing Form 4868 electronically. You will receive an electronic acknowledgment once you complete the transaction. Keep it with your records. Do not send in Form 4868 if you file electronically.

Complete Form 4868 to use as a worksheet. If you think you may owe tax when you file your return, you will need to estimate your total tax liability and subtract how much you have already paid (lines 4, 5, and 6 below).

If you think you may owe tax and wish to make a payment, you may pay by electronic funds withdrawal using option 1 or you may pay by credit card using option 2. See 1 and 2 on this page for details.

1 E-file Using Your Personal Computer or Through a Tax Professional

Refer to your tax software package or tax preparer for ways to file electronically. Be sure to have a copy of your 2004 tax return—you will be asked to provide information from the return for taxpayer verification. If you wish to make a payment, you can pay by electronic funds withdrawal (see page 4) or send your payment to the address shown in the middle column under *Where To File a Paper Form 4868* on page 4.

2 E-file and Pay by Credit Card

You can get an extension if you pay part or all of your estimate of income tax due by using a credit card (American Express® Card, Discover® Card, MasterCard® card, or Visa® card). Your payment must be at least \$1. You may pay by phone or over the Internet through one of the service providers listed below.

Each service provider will charge a convenience fee based on the amount of the tax payment you are making. Fees may vary between service providers. You will be told what the fee is during the transaction and will have the option to continue or cancel the transaction. You may also obtain the convenience fee by calling the providers' toll-free automated customer service numbers or visiting their websites. Do not add the convenience fee to your tax payment.

Confirmation number. You will receive a confirmation number when you pay by credit card. Enter the confirmation number below and keep for your records.

Link2Gov Corporation
1-888-PAY-1040™
(1-888-729-1040)
1-888-696-5465 (Customer Service)
www.PAY1040.com

Official Payments Corporation
1-800-2PAY-TAX™
(1-800-272-8929)
1-877-754-4413 (Customer Service)
www.officialpayments.com

Enter confirmation number here ▶

File a Paper Form 4868

If you wish to file on paper instead of electronically, fill in the Form 4868 below and mail it to the address shown on page 4. If you are a fiscal year taxpayer, you must file a paper Form 4868.

▼ DETACH HERE ▼

Form **4868**
Department of the Treasury
Internal Revenue Service

Application for Automatic Extension of Time
To File U.S. Individual Income Tax Return

OMB No. 1545-0188

2005

For calendar year 2005, or other tax year beginning 2005, ending 2005

Caution: Incorrect or missing information may cause a delay in processing.

| Part I Identification | | Part II Individual Income Tax |
|---|-----------------------------------|---|
| 1 Your name(s) (see instructions) | | 4 Estimate of total tax liability for 2005, \$ |
| Address (see instructions) | | 5 Total 2005 payments |
| City, town, or post office State ZIP code | | 6 Balance due. Subtract line 5 from line 4 (see instructions) |
| 2 Your social security number | 3 Spouse's social security number | 7 Amount you are paying (see instructions) |
| | | 8 Check here if you are "out of the country" and a U.S. citizen or resident |

For Privacy Act and Paperwork Reduction Act Notice, see page 4.

Cat. No. 13141W

Form 4868 (2005)

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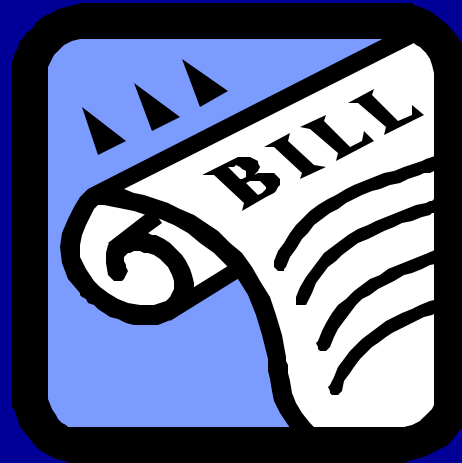
New 2005 Income Tax Forms

- ☐ **Form 8899**, *Notice of Income from Qualified Intellectual Property*
- ☐ **Form 8900**, *Qualified Railroad Track Maintenance Credit*
- ☐ **Form 8901**, *Information on Qualifying Children Who Are Not Dependents (Child Tax Credit Only)*
- ☐ **Form 8902**, *Alternative Tax on Qualified Shipping Activities*
- ☐ **Form 8903**, *Domestic Production Activities Deduction*
- ☐ **Form 8906**, *Distilled Spirits Credit*
- ☐ **Form 8907**, *Nonconventional Source Fuel Credit*
- ☐ **Form 8908**, *New Energy Efficient Home Credit*
- ☐ **Form 8909**, *Energy Efficient Appliance Credit*
- ☐ **Form 8910**, *Alternative Motor Vehicle Credit*
- ☐ **Form 8911**, *Alternative Fuel Vehicle Refueling Credit*
- ☐ **Form 8912**, *Clean Renewable Energy Bond Credit*

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Pending Legislation

□ **H.R. 3376** (House) and **S. 1447** (Senate), *Tax Technical Corrections Act of 2005*





Additional Resources

☐ **Draft 2005 forms:**

www.irs.gov/taxpros/lists/0,,id=97784,00.html

☐ **Final forms:**

www.irs.gov/formspubs/lists/0,,id=97817,00.html

☐ **Pub. 553:** www.irs.gov/pub/irs-pdf/p553.pdf

☐ **Legislation:** <http://thomas.loc.gov>

☐ **E-mail:** *taxforms@irs.gov

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